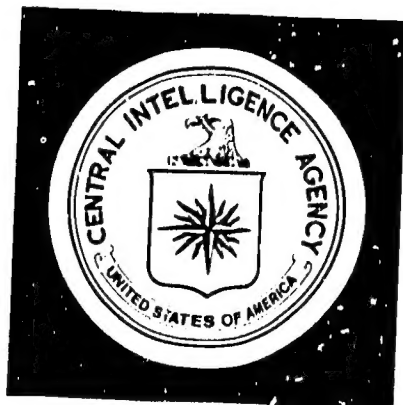


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USSR: End of July Prospects for Grain Prod. and Trade

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Confidential

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**USSR: END OF JULY PROSPECTS
FOR GRAIN PRODUCTION AND TRADE**

SUMMARY

1. Crop prospects have been cut sharply by continuation of a severe drought in most of the USSR's spring grain area. We now estimate total grain production at 185 million metric tons, 15 million tons below our end-of-June forecast.

2. Even at this date, the estimate is not certain. Unless the drought breaks, the outlook for late maturing crops, such as corn, could worsen further.

3. A crop of 185 million tons is some 25 million tons below projected requirements for domestic use and export. The Soviets have negotiated in recent weeks to buy 14-1/2 million tons of grain and may come back for more later. They are unlikely, however, to meet their entire grain deficit from imports, even though they would have no difficulty financing whatever purchases they choose to make. Other means of filling the deficit include some slaughtering of livestock, and reduction in feed rations, although the continued high priority of consumer programs probably precludes any large cuts in domestic demand for grain. More likely would be drawdowns in stocks.

DISCUSSION

Introduction

4. Growing conditions in the USSR's grain land have deteriorated during the past two months, sharply reducing the size of this year's crop and prompting the Soviets to buy large quantities of grain. This publication uses weather data through 22 July and available collateral information to describe current crop conditions, to update earlier estimates of the size of the Soviet grain crop, and to discuss recent Soviet grain-buying activity.

Note: This publication was prepared by the Office of Economic Research. It incorporates materials and analysis supplied by the Environment Analysis Staff of the Office of Geographic and Cartographic Research. Comments and queries regarding this publication are welcomed and may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 5107.

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Status of the Crop

5. Weather during June and the first three weeks of July has been unusually dry. Severe drought persisted in the central portion of the USSR – the Volga Valley, southern Urals, and parts of northern Kazakhstan – and spread into parts of the northeastern Caucasus, the southern and eastern Ukraine, and northern Kazakhstan (see the map).

Winter Grains

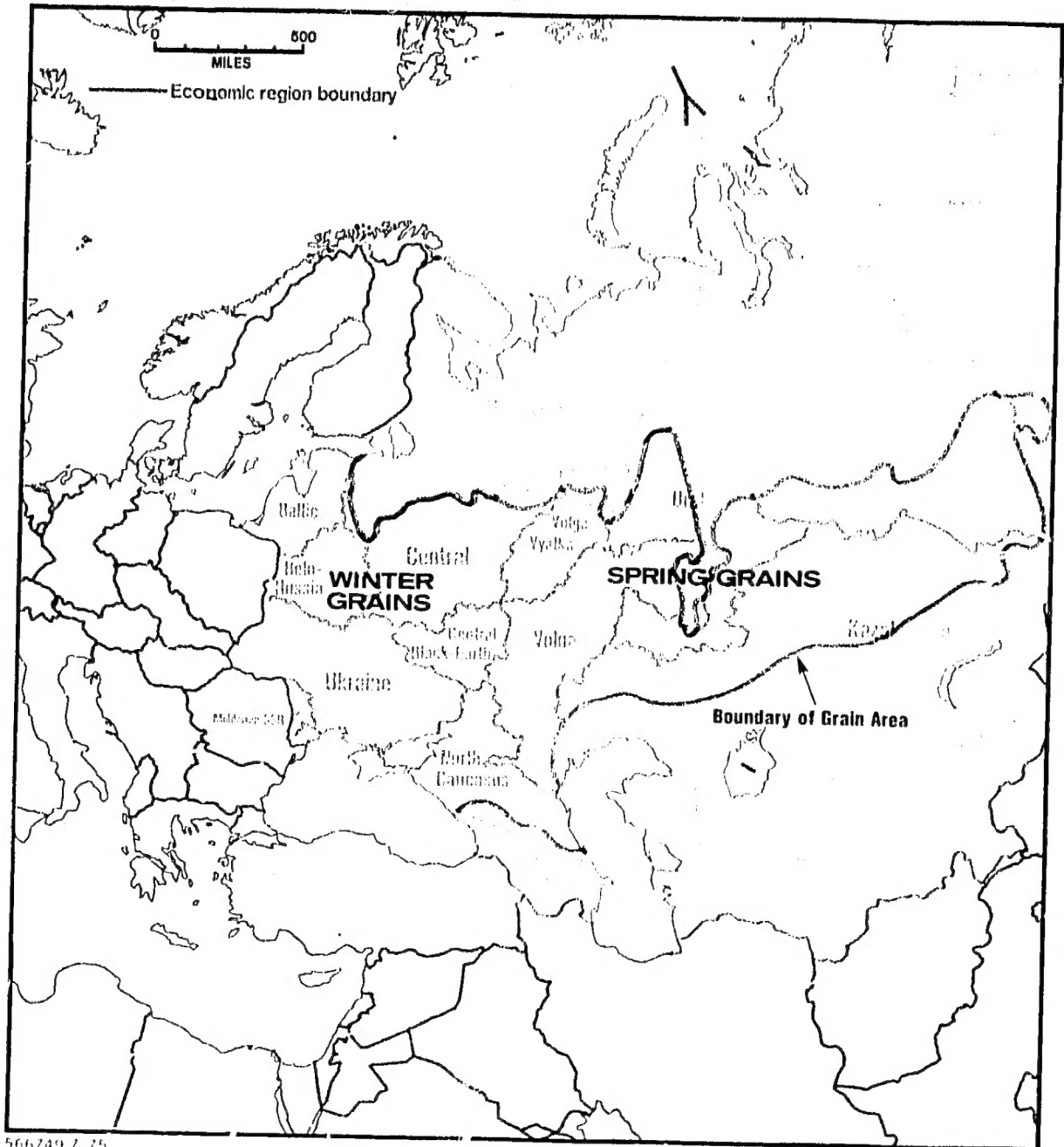
6. We estimate winter grain production at about 67 million tons, somewhat below our earlier 70 million ton prediction. Crop conditions remain good in much of the winter grain lands. In June, however, soil moisture in regions on the western edge of the drought-stricken Volga Valley, where winter grains are grown, became critically low. Although the crop was near maturity, yields suffered. Nevertheless, our current forecast remains 3-1/2 million tons above the previous record reached in 1973 because of the large acreage sown and very favorable winter weather, which minimized winterkill.

Spring Grains

7. Crop conditions have sharply deteriorated in most of the spring grain area since June. During the first ten days of July, about an inch of rain fell in the southern and eastern Ukraine – important corn producing areas – and in parts of the Volga Valley. The subsequent return of abnormally high temperatures and low humidity, however, quickly reduced soil moisture to previous critically low levels. In addition, the affected area moved farther east into northern Kazakhstan. During the second decade of July, rain fell in the important spring grain areas north of the Volga Valley, marginally improving crop prospects in these regions.

8. In central Siberia, which usually accounts for about 15% of all spring grains, recent dryness may have helped rather than hurt the crop. A wet spring had delayed sowing in this area, and the higher than normal temperatures during early July, while not seriously reducing soil moisture, accelerated crop development and thus reduced the risk of major losses from early frosts.

9. On balance, however, the drought has drastically cut the spring grain crop. This spring and summer have been the driest since 1963 and 1965, when the USSR's two worst crop failures occurred. Cumulative precipitation since the



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end of March has been only two-thirds of normal (see Table 1). We estimate the spring grain yield at about 11.8 centners per hectare, the lowest yield since 1967, even though improvements in technology and fertilizer application have raised yields

Table 1

USSR: Rainfall in the Spring Grain Area¹

	Millimeters					1975 as a Percent of 1962-74
	Annual Average 1962-74	1972	1973	1974	1975	
Cumulative rainfall April through:						
31 May	61	66	58	72	55	90
10 Jun	75	83	64	88	65	87
20 Jun	91	103	78	121	72	79
30 Jun	111	129	118	146	79	71
10 Jul	129	148	141	160	89	69
20 Jul	147	168	160	185	102	70

1. Precipitation in each spring grain area is weighted by its share of the total area sown in spring wheat.

somewhat since the mid-1960s in years of normal weather. On a sown area of 100 million hectares, this would result in a spring grain crop of approximately 118 million tons - 12 million tons less than our previous forecast. Even so, a further deterioration in conditions could lower yields of spring grains such as corn that have not yet ripened - particularly those in the northern and eastern regions.

Harvest Activity

10. The hot weather has fostered crop maturation and brought harvest operations into full swing two to three weeks earlier than usual. By 21 July, grain had been threshed on about 34 million hectares, one-quarter of the total grain area.¹ This is nearly four times greater than the area threshed by mid-July last year and in 1973. The winter grain harvest is largely completed in Krasnodar and

1. The area of all pulses and grain, except corn, grown on state and collective farms is about 123 million hectares. This excludes the grain area sown on small plots by individuals and the area sown on subsidiary farming enterprises operated by nonagricultural firms and organizations.

the southern Ukraine, in full swing in the northern and eastern Ukraine, and beginning in the western Ukraine, Belorussia, and the southern part of the Central region of European Russia.

11. This year's dry conditions may cause harvesting losses. In some areas, winter and spring grains are ripening simultaneously, and there may not be enough labor and equipment to harvest them as quickly as usual. Failure to harvest the crop as soon as it matures will leave the grain brittle and subject to shattering. Preparing and distributing harvesting equipment promptly in order to limit losses will test the mettle of farm managers.

12. The Soviet press has given little indication of the size of the harvest. Normally Russian newspapers disclose representative grain yields in their commentary. Almost no data have appeared this year. Moreover, the US Department of Agriculture's winter wheat team – which last year received estimates of winter grain production – was able to obtain estimates of winter wheat yields only for four administrative districts. The Soviet's unusual reticence suggests greater than normal harvest problems.

Status of Other Crops

13. Problems also exist with other crops – particularly hay and other forage crops – in the drought-stricken area. Forage crops supply about two-thirds of the USSR's livestock feed, and a serious shortfall increases the demand for feedgrains. Dryness has affected as much as one-fifth of the area under forage crops. Although little information on the condition of these crops is available, reduction in yields in this area may cut 25 million tons – or the feed equivalent of roughly 5 to 7-1/2 million tons of grain – from the USSR's fodder supplies.² Recent calls to resow harvested fields with buckwheat, corn, and millet and to ensure collection of all straw and chaff – much of which is often burned or plowed under – have not yet reached campaign proportions but indicate serious concern on the part of Soviet authorities. On a local scale, fodder procurement can be an especially severe problem. A recent report in a Soviet newspaper described the efforts undertaken in parts of the northeastern Caucasus to ship feed supplies into the hardest hit areas and to move livestock out of those areas into regions where pasture is more readily available.

2. A major shortfall in higher quality forage crops (e.g., corn silage and legume hays) will partially be offset by the additional use of lower quality forage crops (e.g., straw, chaff, wild hay, and sugar beet tops). Therefore, the USSR's grain requirement is not necessarily increased by the calculated grain equivalent of feed supplies lost to the drought.

14. The sunflower seed crop – the USSR's principal source of vegetable oil – has suffered from the same weather conditions as spring grains. Because of the later development of sunflowers and other oilseeds, however, their yields will be more affected than those of grain by the weather during the next two weeks.

15. Potatoes and sugar beets, key ingredients in both human and livestock diets, largely are grown outside this year's drought area. These crops are now entering their critical growth stages.

Outlook for Production

16. With 67 million tons of winter grain and 118 million tons of spring grain, total production would amount to 185 million tons, 15 million tons below our end-of-June estimate (see Table 2). Production of wheat, the USSR's basic

Table 2

USSR: Grain Production¹

	Million Metric Tons					
	Annual Average 1966-70	1971	1972	1973	1974	Esti- mated 1975
Total	167.6	181.2	168.2	222.5	195.6	185
Winter grains ²	50.8	63.0	40.6	63.5	62.5	67
Of which:						
Wheat	35.9	47.8	29.4	49.4	44.7	53
Spring grains	116.7	118.2	127.6	159.0	133.1	118
Wheat	54.3	51.1	56.6	60.5	39.2	33½
Barley	28.3	32.3	35.1	51.7	51.6	42
Other ³	34.1	34.8	35.9	46.8	42.3	42½

1. Because of rounding, components may not add to the totals shown.

2. In addition to winter wheat, winter grains include rye and winter barley.

3. Including corn, oats, miscellaneous grains, and pulses.

breadgrain, is estimated at about 86-1/2 million tons, slightly larger than last year's crop but over 23 million tons below the record 1973 harvest. Even at this date, these estimates are uncertain. Continuation of the drought will further reduce corn yields and yields of spring grains that have not yet matured, increase harvesting losses due to shattering, and lead to the abandonment of some grain lands.

17. A grain crop of 185 million tons will preclude fulfillment of the Soviet's five-year plan goals for agriculture and jeopardize overall economic growth in 1975. This year's harvest will be about 10 million tons below last year's crop and more than 30 million tons below the 1975 Plan. Setbacks in grain and fodder production will be felt in the livestock sector. Moreover, unless the drought is broken, fall-harvested crops such as sunflower seeds – which are important raw materials for the economy's industrial sector – will also suffer. Production of potatoes and sugar beets is also vulnerable to drought, should it extend to the areas where these crops are grown on a large scale.

1975 vs. 1972

18. There are major differences between this year's drought and the conditions in 1972 that sparked grain imports of 29 million tons. This year's drought is much more widespread than the drought that hit European Russia in 1972. In 1972 the USSR produced 127-1/2 million tons of spring grain on 95-1/2 million hectares. This year we expect 118 million tons from 100 million hectares. A lower spring grain harvest than in 1972 should be more than offset, however, by a much larger winter grain harvest. In 1972 one of the coldest winters on record led to much higher than normal winterkill – some 10-1/2 million hectares – reducing the harvested area to 24-1/2 million hectares and the winter grain crop to 40-1/2 million tons. In contrast, the past winter was the warmest on record in the winter grain areas. Winterkill was at a minimum, and 30 million hectares will be harvested, yielding an estimated 67 million tons of grain, as shown.

	1972		1975 Estimate	
	Area (Million Hectares)	Production (Million Tons)	Area (Million Hectares)	Production (Million Tons)
Total grains	120	168	130	185
Winter grains	24.5	40.5	30	67
Spring grains	95.5	127.5	100	118

Imports

19. It is now clear this year's crop will be well below the normal grain requirement, estimated to be about 210 million tons. Although it has recently purchased large quantities of foreign grain, the USSR will not necessarily try to cover all of the difference between expected domestic needs and domestic production with imports. Among the other options available to Moscow are:

- using grain stocks held in reserves for just such emergencies – unfortunately, we do not know the level of stocks;
- reducing livestock rations – which now run 100 million tons of grain a year; and
- slaughtering livestock herds to reduce grain demand.

The larger the production shortfall, the more use is likely to be made of these options.

20. Since assuming power in 1965, the Brezhnev regime has committed itself increasingly to a policy of improving the Soviet diet, especially through a major boost in the consumption of meat and other livestock products. An absolute decline in output of livestock products and size of herds, coupled with a large unsatisfied Soviet consumer demand and high expectations, would be a setback that the regime would try to avoid unless the shortfall in production was considerably larger than we had forecast.

21. In the past several weeks, the Soviets have purchased 14-1/2 million tons of grain for delivery through August 1976, including 1 million tons still under negotiation with France.³ Three-fifths of these imports will be wheat; the remainder is to be corn and barley (see Table 3). The orders placed with US grain companies – representing 9.8 million tons – will be largely filled from the US crop. The remaining contracts are with Canada, Australia, and France. Total deliveries in FY 1976 (*including* old purchases scheduled for delivery and *excluding* current purchases to be delivered after FY 1976) are estimated at 14.8 million tons, more than two and one-half times the amount imported in FY 1975. Imports during FY 1973, following the last serious Soviet drought, were almost 23 million tons.

22. The current round of Soviet grain purchases is unlikely to satisfy all their grain import needs between now and the 1976 harvest. In most previous years when Soviet grain imports were large, there were at least two periods of heavy buying. It would make sense for the Soviets to temporarily withdraw from the world market to assess the evolution of both their own crops and world grain supplies. A future assessment by the Soviets may bring them back into the market even if Soviet crop conditions do not continue to deteriorate. A lull in Soviet

3. The Soviets reportedly requested 2 million tons of "cereals" from the French, but France is offering only 1 million tons. The Soviets are rumored to be attempting to increase their wheat contract with the Australians from 750,000 to 1 million tons.

buying will also allow the exporting nations to decide whether they can afford to sell more. For example, the current limit on US corn sales to the USSR could be raised later if US corn prospects improve. Canada's crop also is at a crossroads. Growing conditions have been favorable so far, but the first official crop estimate will not be released until late August. There are also recent rumors that the Soviets may want to buy 1-2 million tons of US soybeans later this summer to satisfy their livestock and vegetable oil requirements. This will depend upon continuing crop developments in both countries and relative prices of grain and soybeans when the Soviets decide to buy.

Table 3
Deliveries of Foreign Grain to the USSR
FY 1972-75 and Contracts to Date for FY 1976¹

	FY 1972		FY 1973		FY 1974		FY 1975		FY 1976 ²	
	Thousand Metric Tons	Million US \$	Thousand Metric Tons	Million US \$	Thousand Metric Tons	Million US \$	Thousand Metric Tons	Million US \$	Thousand Metric Tons	Million US \$
Total grain	7,841	478.1	22,900	1,430.7	10,960	804.1	5,582	996.2	14,797	2,024.7
Of which:										
Wheat	3,985	289.7	16,480	1,108.6	4,832	436.4	2,783	525.6	9,280	1,371.1
Of which:										
United States	3	0.7	9,371	558.0	2,717	217.4	1,003	203.9	3,684	569.4
Canada	2,982	201.0	4,441	390.0	1,500	157.5	460	80.0	3,070	485.1
Australia	500	28.0	908	54.5	600	60.0	700	137.9	625	108.3
France	500	60.0	670	40.2	....	....	....	....	1,000 ³	153.0
Barley, rye, and oats	1,883	66.2	2,435	84.4	1,421	76.1	22	2.3	900	103.5
Of which:										
United States	907	37.0	400	21.3	721	54.3	22	2.3	900	103.5
Canada (barley)	478	19.1	576	(included in wheat)	500	6.7	....	....	....	....
France (barley)	250	(included in wheat)	930	37.2	200	15.1	....	....	....	....
West Germany (rye)	150	6.0	240	14.4	....	....	....	....	....	....
Corn	1,603	87.2	3,477	194.3	4,290	249.5	2,361	339.9	4,618	550.2
Of which:										
United States	1,603	87.2	3,274	181.6	4,123	237.3	1,041	137.4	3,915	441.9
Argentina	....	....	....	....	....	....	890	129.4	703	108.3
Wheat flour (grain equivalent)	368	35.0	372	35.0	417	42.0	417	128.4	(included in wheat)	
Canada	368	35.0	372	35.0	417	42.0	417	128.4	(included in wheat)	

1. Purchased on Soviet account; not all purchases will be delivered to the USSR. All values are assumed to be f.o.b. Data for FY 1975 and FY 1976 are estimated.

2. For FY 1976, numbers differ from recent purchases because they include old purchases scheduled for delivery in FY 1976 and exclude current purchases to be delivered in FY 1977, as follows:

	Thousand Metric Tons		
	FY 1976	FY 1977	
	Old Contracts	New Contracts	New Contracts
Total grain	2,090.1	12,707.0	1,843.0
Wheat	1,154.5	8,125.0	825.0
Barley	....	900.0	200.0
Corn	935.6	3,682.0	818.0

3. Under negotiation with France.

23. Although Soviet hard currency trade is in deficit, the availability of credit and gold will enable the Soviets to buy very large amounts of grain. In effect, availability of foreign exchange should not be a significant constraint on Soviet decisions concerning grain imports.